

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6977

BILL NUMBER: SB 541

DATE PREPARED: Jan 17, 2001

BILL AMENDED:

SUBJECT: Tax Credits for Training and Work-Based Learning.

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides a tax credit for employee training expenses incurred under a program certified by the Department of Commerce. It requires the amount of any federal deduction allowed for employee training expenses to be added back to a taxpayer's Adjusted Gross Income (AGI) if the training expense credit is claimed. The bill also provides a tax credit for payroll expenses of student employees participating in a work-based learning program certified by the Department of Workforce Development.

Effective Date: January 1, 2002.

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur additional administrative expenses related to changing tax forms, instructions, and computer programs to accommodate these new tax credits. It is expected that the DOR could absorb these expenses given its current budget and resources.

The bill also requires that the Indiana Department of Commerce (IDOC) and the Department of Workforce Development (DWD) will certify the various programs provided for under this proposal. They must also keep track of the amount of tax credits approved and publish annual reports. The bill further allows the IDOC and DWD to adopt necessary rules and to charge credit recipients fees to cover administrative costs. Fee revenue would be deposited in the agencies' operating funds.

Explanation of State Revenues: *This bill creates two income tax credits which could reduce state revenue by as much as \$50 M annually beginning in FY 2003. However, the bill also provides an add-back of training expenses claimed on federal tax forms for those taking the Employee Training Credit. This increase in state taxable income may offset the revenue loss associated with the new credits by an indeterminable amount.*

Employee Training Credit: This bill provides a tax credit for qualified training expenses incurred during a given tax year. Eligible training expenses include tuition, fees, wages paid to an instructor, materials,

supplies, textbooks, and rental fees for training facilities and equipment. A taxpayer must submit an application to the IDOC for approval and certification of a proposed training program. The tax credit is limited to 40% of qualified training expenses and may not exceed the lesser of: (1) 110% of the entity's previously estimated expenses for that tax year as certified by IDOC; (2) \$100,000; or (3) the entity's tax liability. If the expenses certified exceed \$100,000 or the taxpayer's liability or if the taxpayer incurs operating losses, credits may be carried forward to subsequent years. Carrybacks or refunds would not be permitted. The maximum credits allowed in any tax year may not exceed \$25 M.

Work-Based Learning Credit: This bill provides a tax credit for student employee payroll expenditures made during a given tax year. The expenditures must be part of a program approved by the Department of Workforce Development. A taxpayer must submit an application to the DWD for approval and certification of a proposed work-based learning program. The tax credit is limited to 40% of qualified payroll expenses and may not exceed the lesser of: (1) \$100,000; or (2) the entity's tax liability. If the expenses certified exceed these limits or the taxpayer incurs operating losses, credits may be carried forward to subsequent years. This tax credit may not be carried back or refunded. The maximum credits allowed in any tax year may not exceed \$25 M.

Both credits may be applied against a taxpayer's tax liability from the Gross Income Tax, Adjusted Gross Income (AGI) Tax, Supplemental Net Income Tax, Bank Tax, Savings and Loan Association Tax, Insurance Premium Tax, Financial Institutions Tax, and Gross Retail or Use Taxes. These credits would apply to tax years beginning January 1, 2002, and will affect revenue collections annually beginning in FY 2003. The total amount of credits approved annually may not exceed \$50 M. (However, if some credits are carried forward, the total revenue loss could exceed \$50 M in a particular year.) Individual AGI Tax revenue is deposited in the state General Fund, and corporate income tax revenue is deposited in the General Fund and the Property Tax Relief Fund.

Add-back of federal deduction for training expenses: The bill also provides that any amount deducted for training expenses under the Internal Revenue Code on a taxpayer's federal tax return must be added back to state taxable income for purposes of determining liability under the Individual AGI Tax and the Corporate AGI Tax. However, this add-back only applies if the taxpayer claims any amount of the Employee Training Credit in a given tax year. This would partially offset the revenue loss associated with the credit, although the precise impact cannot be determined.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue, Indiana Department of Commerce, Department of Workforce Development.

Local Agencies Affected:

Information Sources: